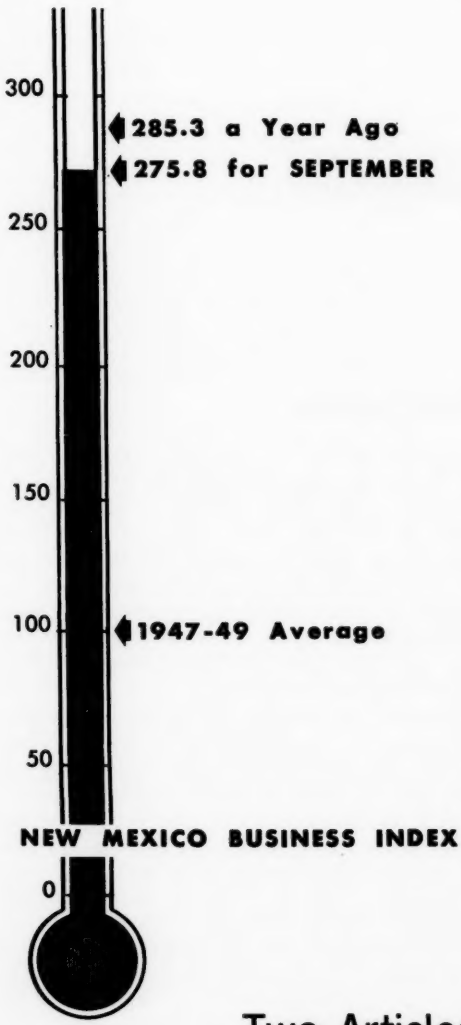
NOVEMBER 1960

New Mexico BUSINESS



The hope that August gave of an end to the business slump crumbled when we assembled September indicators of business conditions. Reports showed September 1960 as far behind September 1959 as many of the earlier months had trailed behind their 1959 counterparts.

The decline was led by another fall-off in bank debits. However, although most measures of banking activity are below year-ago levels, time deposits (savings accounts) have been advancing steadily.

Despite a decline in manufacturing employment, which affected our overall index, total employment inched up a bit, reaching its highest point on record. This gain developed principally in the mining and the government sectors, with construction and manufacturing showing the largest drops.

Total construction contracts advanced on the basis of increases in nonresidential and heavy engineering projects, but residential activity remained slow.

All segments of the mining industry increased their levels of operations over a year ago. The great percentage gain in production of metallics resulted largely from a return to normal copper operations, following last year's five-month strike.

Two Articles on New Mexico's Banking System

NOTES ON URANIUM CONTRACTS & ON THE STOCK MARKET

Economic Development in New Mexico Needs a Change in the State Banking Structure

By

William J. Parish

Dr. Parish is the dean of the College of Business Administration of the University of New Mexico. His article and that beginning on Page 9 were written entirely independently of each other. Neither is an answer to the other. Both are available as reprints at 25 cents each.

Much ineffective and costly effort has been expended in the name of economic development. Too often the business leaders of a community or a state, imbued with the magic of the phrase, act with mesmeric unity in seeking the appropriation of public or private funds for the purpose. With the opening of an industrial promotion office and the hiring of a secretary and her manager--thus offering the facilities for answering inquiries, dispensing advertising materials, and greeting and chaperoning visiting executives--many of these business executives are anxious to believe the job well done, the objective within reach.

The selling approach to economic development is frequently supplemented with special funds or legislation as enticing devices to attract shopping industrialists. Like many graduating high school athletes in a somewhat different atmosphere, these roging industrialists may care less for the quality of the campus environment than for the material supplements to be received for playing the game. Although such subsidizing enticements do not preclude the opportunity of attracting quality people and organizations, these methods are bell-wethers for weak entrepreneurs and unscrupulous promoters.

Yet the businessman is not wrong in recognizing the need for promotional activities. He feels "at home" with this approach. He has seen it work in his own enterprise. He would be rightfully suspicious of any program promising commercial success if it belittled the direct approach of seeking out potential customers. The recent launching of Albuquerque Industrial Development Services can be a promising step forward as one approach to increased economic activity.

Surely, however, it is becoming apparent to a growing number of business executives that this new entree to industrial Albuquerque (and, I would hope, to industrial New Mexico) consisting of an office with a welcome mat, an able coordinator, and a charitable fund for imported industries, runs the great risk of serving only as a surface approach to the problem. In New Mexico, with half its counties having experienced a population decline of 20 per cent over the past two decades, with its economy poised perilously on weakening prices for raw materials in world markets and on shifting budget decisions in Washington, we all know that the correction must involve far more fundamental approaches to the problem than merely that of setting up a sales organization--as important as that aspect is.

DESIRABLE MEASURES

New Mexico should support and supplement the selling approach to economic development with at least two basic measures. One, a thorough research study of our economy, is of primary importance, though present funds are inadequate to assure success for such a program within a practical time limit. The second measure that needs to be taken, and a far more subtle approach, involves an examination of the institutional structures of private enterprise that contribute to the freer flow of capital throughout the State. No force for industrial growth can be so strengthening, so cumulative, and so long lasting as private capital turned loose to probe selfishly for advantage. The most flexible and promising institution for directing this force is the commercial banking system.

Unfortunately for New Mexico, the state banking act of 1935, which for all practical purposes restricts the extension of branches of a given bank to the boundary lines of its home county, has hobbled our mobile capital and has seriously crippled our opportunity for a strong, continuous, pervasive force for statewide economic development. The impedance of the free flow of banking credit, resulting from the restriction of major bank operations to territories of unfavorable geographic and population size, has penalized the less developed parts of the State.

MONOGRAPH ON BANKING SYSTEMS

In a pioneering study of the pertinent economic effects of limited branch banking in New Mexico, as opposed to statewide branch banking in Arizona, the Bureau of Business Research of the University of New Mexico is publishing a master's thesis by Paul D. Butt, which examines the significance to economic development of the different banking structures of these two states. The significance of Mr. Butt's thesis lies not in the fact that Arizona, while possessing a different banking structure, had prospered more since 1940 than New Mexico has. If the banking structure of a state was in all cases the major factor in the degree of economic growth attained in that state, then Texas and Colorado, each using the unit system of banking, should have shown no greater industrial development than New Mexico. Maine and Vermont, each with statewide branch banking, should have outstripped New Mexico by a heavy margin. The importance of Mr. Butt's thesis is the clear evidence it presents that the banks of Arizona are making more effective use of their resources toward economic development than are the banks of New Mexico and that the branch banking structure in Arizona makes such use possible. Contrarily, the banking structure in New Mexico discourages a similar contribution.

FIVE-STATE COMPARISON

It is unfortunate that Mr. Butt's thesis could not have extended its scope to include the unit banking states of Colorado and Texas and the statewide branch banking system of California. A five-state study would have brought his major points into even clearer focus. In none of the unit banking states of Colorado, New Mexico, or Texas have the banking resources been used so effectively toward economic development as they have in Arizona and California.

Policies Regarding Reserves

Even if the facts to support this statement had not been available, logical theory should have brought us to the same conclusion. When a bank must confine its major operations to a limited area, as in the cases of Colorado, New Mexico, and Texas, such restriction tends to place a premium on the protecting instincts of bankers, who will seek to hold higher reserves per dollar of deposits in order that the risk of loans, little diversified as to industry and locality, can be met. Colorado and Texas, fortunately for them, have acquired through several favorable avenues rather substantial accumulations of private capital. The fact that the banks in these two states hold considerably higher percentages of reserves in cash and short-term governments than do the banks of Arizona and California is not particularly harmful. In New Mexico, however, where the banks tend to hold even higher inactive reserve percentages than do those in Colorado or Texas (see Table I), the damage to economic growth can be severe. Here the reserve of private capital is all too small, and its efficient use becomes an essential force for economic development. Yet by the very nature of our banking laws sound bank management must face local risks with higher inactive reserves. In Arizona and California, bank reserves can be deployed over extensive geographical areas with full confidence that the diversified risks resulting will reduce the relative size of requirements for liquid reserves.

TABLE I

CASH ASSETS* AS PERCENTAGES OF TOTAL DEPOSITS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	65.3	61.2	53.1	45.9
Texas	61.8	57.8	51.6	47.9
NEW MEXICO	62.6	64.5	56.0	53.3
Arizona	48.4	49.5	36.9	31.4
California	49.0	46.0	38.6	36.1

*Cash items plus government obligations maturing in less than five years
Source: Federal Deposit Insurance Corporation Annual Reports

In the unit system of banking, where liquid reserves tend to be relatively high, one would expect to find a corresponding restriction on loans for enterprise. If we analyze the use of loanable funds in the unit banking states of Colorado, Texas, and New Mexico, we find that a lower portion of these funds was placed in loans and discounts during the 1950s than has been the case in either Arizona or California. New Mexico has the lowest proportion in loan accounts of any of these states. (See Table II.)

Unless the banking system itself can contribute to a major break-through toward general economic development, then the responsibility falls more heavily on long-term capital avenues. When internal generations of mobile capital are inadequate, the difficulty of obtaining general economic growth is multiplied. So far as such growth is attained in spite of these circumstances, it is likely to be spotty and unbalanced--as, indeed, has been true in New Mexico.

Assets and Loans

Pertinent to this problem is the low percentage of banking assets placed in commercial and industrial loans in New Mexico--a much lower percentage than has been the case in Arizona or California. In Texas, where for extraordinary reasons exceptionally diversified local markets for short-term loans exist throughout a sizeable portion of the state, an exception to the expectations of the unit banking system is found. Colorado, however, is quite comparable to New Mexico with respect to the extension of commercial and industrial loans. But New Mexico suffers more than either of these states from lesser opportunities for diversification at the local level. Statewide branch banking in Arizona and California overcomes this handicap; and in Arizona, where diversity at the local level may be no greater than in New Mexico, commercial and industrial loans have represented a significantly higher portion of total assets. (See Table III.)

In the area of personal loans the differences among the states appear to have little relation to banking structure, probably because these loans, with small average balances and fairly short maturities, can attain greater safety for the lenders by sheer numbers of loans. Yet, in the case of real estate loans where balances are much larger and maturities are much longer and the risk--on the whole--is admittedly greater, the unit banking states of Colorado, Texas, and New Mexico hold significantly lower portions of banking assets than do the branch banking states of Arizona and California. Other reasons than a difference in banking structure certainly have played their parts in this phenomenon; but surely these cannot account for California's having five times the proportion of real estate loans found in Texas, or for Arizona's having one and one-half the proportion in Colorado and almost twice that in New Mexico. (See Table IV.) Much of this restriction to economic development must be placed at the door of the unit banking system.

It would be entirely fallacious, however, to conclude from these figures that the banking fraternity of New Mexico, as well as that of Colorado or Texas, is any less enterprising than those of Arizona and California. Admittedly, a system dominated by small independent banks finds it more difficult and somewhat impractical to develop management talent in depth. Opportunities for training personnel and for promoting able people are far greater in a statewide banking system. Yet one knows full well that should the preoccupation for safety in high percentages of primary and secondary reserves be made a less nagging problem the bankers of New Mexico would respond as have bankers elsewhere.

At this point there is a need to explore an inevitable question: Are not the banking institutions of Arizona and California taking an inordinate risk in placing so large a percentage of their assets

TABLE II

LOANS AND DISCOUNTS AS PERCENTAGES OF TOTAL ASSETS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	28.7	33.0	41.0	47.7
Texas	32.3	34.5	39.9	41.9
NEW MEXICO	31.4	30.0	37.4	39.5
Arizona	49.9	37.3	52.7	57.0
California	38.8	42.0	49.2	52.7

Source: Federal Deposit Insurance Corporation Annual Reports

TABLE III

COMMERCIAL AND INDUSTRIAL LOANS AS PERCENTAGES OF TOTAL ASSETS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	8.7	9.0	14.2	13.9
Texas	16.7	15.8	19.5	19.2
NEW MEXICO	9.3	8.5	12.4	13.4
Arizona	12.7	9.7	17.0	15.3
California	11.8	13.2	17.8	17.0

Source: Federal Deposit Insurance Corporation Annual Reports

TABLE IV

PERSONAL LOANS AND REAL ESTATE LOANS AS PERCENTAGES OF TOTAL ASSETS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950		1953		1957		1959	
	Personal Loans	Real Estate Loans	Personal Loans	Real Estate Loans	Personal Loans	Real Estate Loans	Personal Loans	Real Estate Loans
Colorado	5.7	5.3	8.1	5.9	10.8	8.2	12.0	8.9
Texas	7.1	3.3	8.6	3.0	9.9	3.7	10.3	3.9
NEW MEXICO	7.5	7.7	7.9	5.9	9.8	7.0	11.1	8.0
Arizona	9.2	12.4	11.9	10.2	14.9	12.9	15.5	15.5
California	6.5	18.0	7.9	18.4	8.3	19.4	9.1	20.4

Source: Federal Deposit Insurance Corporation Annual Reports

in loans and discounts relative to the lower percentage so placed in the unit banking states? The answer is not clear. In terms of risk assets and their relation to equity capital invested there can be no question that the two statewide branch banking systems have placed larger relative sums in risk enterprises. (See Table V.) The unit banking states have committed smaller sums, proportionately, to risk capital and have chosen to place a larger percentage in cash and government obligations. As far as individual banks are concerned, however, it would appear that the statewide and near-statewide banks should have been able to reduce their potential risk greatly by a greater diversification of loans than the strictly local banks can accomplish.

Deposit-Liability Risks and Equity Capital

From the point of view of deposit-liability risk relative to equity capital, all of the five states used in this study have deposit-capital ratios higher than the national average or than traditional measurements. The ratios of Colorado and Texas are somewhat lower than those of Arizona and California, thus implying a slightly lower withdrawal risk; but New Mexico, consistently since 1953, has supported more dollars of deposits per dollar of equity capital than has any of the other four states. (See Table VI.) Presumably, one could argue that this policy places a somewhat higher risk on the New Mexico banking system and is, therefore, perhaps another reason for New Mexico's cautious attitude toward bank loans.

The significant point to be made, however, is that each of these states needs more bank capital and that New Mexico needs the most proportionately. The situation in this state is not the result of inordinate risk, but rather of unusual need of the economy. The personal income in each of these states is growing rapidly. This growth means that deposits will continue to grow and that a great potential for economic development exists if these incomes can be properly channeled into commercial and industrial capital. The commercial banking systems of these states will play a key role in effectively or ineffectively supporting the new opportunities arising.

TABLE V

RATIOS OF LOANS AND DISCOUNTS TO CAPITAL ACCOUNTS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	4.8	5.3	5.8	6.7
Texas	5.8	5.6	5.3	5.4
NEW MEXICO	5.7	5.7	6.5	6.7
Arizona	8.1	6.6	7.9	8.8
California	6.7	7.3	7.8	8.4

Source: Federal Deposit Insurance Corporation Annual Reports

If New Mexico banks even begin to catch up with the lending activities of the banks in the other four states relative to growing personal incomes, many of these banking institutions will need substantial sums of new equity capital. Whereas Colorado, Texas, Arizona, and California banks

TABLE VI

RATIOS OF DEPOSITS TO CAPITAL ACCOUNTS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	15.8	15.0	13.0	12.8
Texas	16.9	15.2	12.1	11.7
NEW MEXICO	17.2	17.9	16.4	15.8
Arizona	18.6	16.5	13.8	14.1
California	15.8	16.1	14.5	14.6

Source: Federal Deposit Insurance Corporation Annual Reports

TABLE VII

PERCENTAGES OF LOANS AND DISCOUNTS (ON YEAR-END BALANCES) TO STATE PERSONAL INCOME
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	19.2	20.3	22.5	26.5
Texas	24.4	25.3	27.3	29.8
NEW MEXICO	15.0	13.9	17.0	17.6
Arizona	20.8	17.7	25.8	30.3
California	29.9	28.7	31.4	33.7

Source: Federal Deposit Insurance Corporation Annual Reports

have year-end loan balances of 25 to 30 per cent of total personal income in their respective states, New Mexico banks have less than 18 per cent. Whereas New Mexico's portion of commercial bank loans to state personal income has grown slightly from 15 per cent to less than 18 per cent since 1950, Arizona's ratio has increased from almost 20 per cent to more than 30 in the same period. (See Table VII.) Such percentages, though only indicative of the intensity of banking efforts, show clearly the ineffective use that is being made of the potential of personal incomes in New Mexico.

NEW MEXICO'S BANK-CAPITAL PROBLEMS

New Mexico banking, therefore, faces a rather major effort in the raising of new bank capital if it is to carry its share in competitive economic development among the states. With a system of small, independent banks the State will have difficulty sustaining that effort. Any unit system of banking must depend upon a few favorably situated banks to produce even the less attractive averages cited in this paper. Many banks, severely restricted to one locality, have little or no opportunity to make full use of their capital; and, when opportunities are present, the risk of operating in one area dictates that loan extensions be made with greater-than-normal caution. Under such conditions few banks will be anxious to raise new capital, and many of those that are anxious will find it comparatively expensive to attract the enthusiasm of investors.

Two phenomena are not unassociated with this shortage of bank capital in New Mexico: (1) interest rates on loans and discounts are 1 per cent or more per annum higher than in either Colorado, Texas, Arizona, or California; (2) there has been a strong effort for many years to supplement this capital shortage with government funds. More than a fifth, and in some years as high as a fourth, of the deposits in New Mexico banks are from government sources, compared with a ninth to an eighth in Arizona and with lesser proportions in the other states cited. (See Table IX.) On June 30, 1960, the state treasurer of New Mexico reported that among these government deposits in this state approximately $24.5 million represented state funds in time deposits carrying interest, while almost $23.5 million were state funds bearing no interest.

It is not the purpose here to argue the propriety of the State's keeping excessive sums idle, while foregoing the opportunity permitted by law to invest surplus resources freely in either the open bill market or in financial institutions (see Chapter 11, Section 2-252, New Mexico Statutes, Annotated, 1953), even though such a policy generally would add very substantial sums of interest to the general fund of the State. Such a flexible policy, however, would be contrary to the expressed state philosophy. The law provides this gratuity. "It is the further policy of the state of New Mexico to foster the banking business and the board of finance shall not withdraw funds from the various banks of New Mexico if it is the banks' desire to pay some reasonable interest rate on said funds." (Ibid.)

For our purpose here it seems proper to remark that banks in New Mexico receive at low or no interest state government funds that by law must be backed 100 per cent in par values of federal government obligations or in market values of eligible "municipals"--reserves which the unit banks hold in surplus amount anyway and which, as security for state funds, need not be in short maturities. Thus the substantial government bond reserves with maturities of less than five years (cited earlier in this article) are augmented by adequate longer-term "governments" and "municipals" to permit, if opportunities presented themselves, a substantial shift to private lending, even while holding to the present size of governmental deposit aid--federal, state, and that of political subdivisions.

TABLE VIII

PERCENTAGES OF INTEREST INCOME ON YEAR-END BALANCES OF LOANS AND DISCOUNTS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	4.3	5.4	5.5	5.6
Texas	4.4	4.8	5.2	5.6
NEW MEXICO	5.9	6.4	6.1	6.6
Arizona	4.7	6.1	5.7	5.6
California	4.4	5.2	5.2	5.4

Source: Federal Deposit Insurance Corporation Annual Reports

For instance, if we were to assume that this abnormal reliance on government deposits is necessary and that huge sums must thereby be segregated in defined investments as security for these public funds, a simple arithmetical exercise can show that this legal problem has not, by itself, been any handicap to the exercise of private lending. If in 1959 New Mexico banks had found reasonable opportunities to expand loans and discounts, they could have done so by more than $50 million, simply by switching from government securities to loans; and they still would have continued to meet the requirements of the law in the backing of public funds on deposit. (See Table X.) Of course, such a change in policy would place a clearer need on New Mexico banks to raise new equity capital to support the somewhat higher risk in earning assets. It must also be recognized that the restricted operating areas which are permitted branch banking in this state probably prevent the great majority of its banks from risking such an increased proportion of earning assets.

In the unit banking system of New Mexico many banks find low-risk income on federal obligations, purchased in large measure through government capital, preferable to the raising of new equity capital, which would require a less restrictive policy in risk loans in order to obtain adequate returns. According to an Albuquerque Tribune quotation (Aug. 19, 1960) from remarks of the state treasurer, one of the factors which justify the placing of state monies as subsidy for private banking is the need of money for community expansion. One can assume only that either the desire for new equity capital or the ability to raise it is not strong in the unit banking system as a whole in New Mexico.

CONCLUSION

The ineffective use of bank capital in New Mexico and the diversion of scarce state funds to subsidize it do not arise as a peculiar trait of New Mexico bankers. These factors grow naturally from a system of banking, legislated into being, that confines a given bank's major operations to a limited geographic area and which deprives many underdeveloped sections of the State of the full benefit of probing and mobile capital. It pressures the banker to emphasize his inward concern for reserves and to lessen his outward drive for commercial and industrial development. It keeps most of its independent banks too small to encourage or permit, in a practical way, the training of capable management in depth. It weakens as a potentially pervasive force the underpinnings of an expansive and self-financed industrial development program.

The picture of statewide branch banking in Arizona and California, on the other hand, shows a system that is geared to supplement strongly other tools of economic development. The results of statewide branch banking in these two states, as measured by operating figures over the decade of the 'Fifties, are outlined clearly in the higher proportions of risk capital extended and the more effective use of private capital.

Should statewide branch banking be permitted to come to New Mexico, it may not offer itself as a panacea for all the problems involved in achieving greater and more general economic development; but it would unleash forces that are now confining themselves to the more opportunistic areas or are being calmed and quieted in the security of riskless reserves. A legislative change permitting statewide branch banking would, at the very least, greatly enhance the opportunity for a much-needed, strong, continuous, pervasive force for statewide economic development.

TABLE IX

PERCENTAGES OF GOVERNMENT DEPOSITS TO TOTAL DEPOSITS
Arizona, California, Colorado, New Mexico, and Texas
1950, 1953, 1957, & 1959

	1950	1953	1957	1959
Colorado	7.4	8.1	8.4	8.7
Texas	9.9	10.5	10.6	10.4
NEW MEXICO	16.9	24.0	22.0	19.9
Arizona	11.0	14.2	12.2	12.7
California	9.4	10.2	9.6	9.3

Source: Federal Deposit Insurance Corporation Annual Reports

TABLE X

SURPLUS OF INVESTMENTS IN NEW MEXICO BANKS
NOT TIED TO PUBLIC-FUNDS DEPOSITS AS MEASURED
BY ARIZONA AND CALIFORNIA EXPERIENCE
December 31, 1959
(dollars in millions)

Total deposits of all kinds in New Mexico banks	$694.7
Percentage of cash assets* to deposits in California	36.1%
to deposits in Arizona	31.4%
Cash assets required of New Mexico banks if percentage reserves conformed to California's	$250.8
to Arizona's	$218.1
Cash assets on hand in New Mexico banks	$370.8
"Surplus" cash assets in New Mexico banks based on California figures	$120.0
"Surplus" cash assets in New Mexico banks based on Arizona figures	$152.7
Other federal obligations maturing in five years or more	$ 34.4
Obligations of states and political subdivisions	$ 35.4
Total eligible securities for public funds in excess of minimum cash assets as existing in California	$189.8
in Arizona	$222.5
Total public funds on deposit in New Mexico banks	$138.4
Governmental investments that could be diverted to private lending in New Mexico, based on the California situation	$ 51.4
Governmental investments that could be diverted to private lending in New Mexico, based on the Arizona situation	$ 84.1

*Cash items plus federal obligations maturing in less than five years
Source: Figures derived from various annual F.D.I.C. reports

Business Activity in New Mexico

	September 1960	Year Earlier September 1959	Per Cent Change September 1960 from Aug. 1960	Per Cent Change September 1960 from Sept. 1959	INDEX September 1960 (Average Month 1947-49 = 100)
Index of Business Activity (1947-49 = 100)	275.8	285.3	- 6.7	- 3.3	275.8
Sales data: Not available. See March 1959 issue of NEW MEXICO BUSINESS					
*Life Insurance Sales (1,000s)	$ 23,754	$ 22,897	- 4.8	+ 3.7	677.3
*Bank Debits, 35 banks (1,000s)	489,043	506,409	- 6.5	- 3.4	305.4[a]
Bank Loans and Discounts, 35 banks (1,000s)	45,828	47,156	- 11.0	- 2.8	271.4[a]
Demand Deposits, 35 banks (1,000s)	330,957	336,414	+ 0.8	- 1.6	177.6[a]
Time Deposits, 35 banks (1,000s)	141,478	124,117	+ 2.4	+ 14.0	399.6[a]
Business Failure Liabilities (1,000s)[b]	341	29	- 37.6	na	1,191.3
Wage Workers in Nonagricultural Establishments	240,900	236,600	+ 1.2	+ 1.8	182.9
in Mining	20,200	18,700	- 1.9	+ 8.0	162.0
in Contract Construction	20,900	22,100	+ 4.5	- 5.4	165.4
*in Manufacturing	16,100	17,500	- 1.2	- 8.0	174.4
in Transportation and Utilities	20,500	20,700	+ 0.5	- 1.0	134.9
in Trade	50,900	50,200	- 0.4	+ 1.4	175.5
in Finance, Insurance, and Real Estate	9,500	9,500	- 1.0	0.0	327.6
in Services and Miscellaneous	38,200	36,800	+ 0.5	+ 3.8	175.5
in Government	64,600	61,100	+ 4.2	+ 5.7	226.4
Number of Insured Unemployed	5,123	3,619	- 4.9	+ 41.6	--
Rate of Unemployment (per cent of labor force)	2.67	1.91	- 4.0	+ 39.8	171.6
Construction Contracts Awarded (value in 1,000s)	$ 16,085	$ 14,980	- 14.1	+ 7.4	--
Residential (value in 1,000s)	$ 6,957	$ 10,493	- 6.1	- 33.7	--
Number of Permits	534	867	- 2.7	- 38.4	--
Floor Area (1,000 sq ft)	653	1,000	+ 2.4	- 34.7	--
Nonresidential (value in 1,000s)	$ 5,568	$ 3,116	+ 9.8	+ 78.7	--
Floor Area (1,000 sq ft)	467	258	- 0.8	+ 81.0	--
Heavy Engineering (value in 1,000s)	$ 3,560	$ 1,371	- 43.0	+159.7	--
*Petroleum Production (1,000s of bbls)	8,698	8,460	- 2.7	+ 2.8	229.3
Natural Gas Production (millions of cu ft)	60,695	60,083	- 7.5	+ 1.0	377.3
*Electric Power Production (1,000s of kwhs)	285,706	278,861	- 13.8	+ 2.5	323.8
*Index of Total Metallics Production (1947-49 = 100)	74.2	12.0	- 8.6	+515.6	74.2
Mine Production - Copper (1,000s of lbs)	10,560	na	- 7.9	na	99.9
Mine Production - Lead (1,000s of lbs)	280	272	- 24.7	+ 2.9	27.0
Mine Production - Zinc (1,000s of lbs)	2,340	1,588	- 10.0	+ 47.4	36.6
*Mine Production - Potash (1,000s of tons)	1,292	1,170	+ 1.0	+ 10.4	322.7
Index of All Farm Prices (1947-49 = 100)	93.1	106.9	+ 2.3	- 12.9	93.1
Index of Livestock Prices	98.0	114.1	+ 3.2	- 14.1	98.0
Index of Crop Prices	87.7	96.8	0.0	- 9.4	87.7
Receipts from All Farm Marketings (1,000s)	$ 10,142	$ 12,189	- 13.5	- 16.9	90.2
Livestock and Products	7,000	7,395	+ 11.8	- 5.4	107.3
Crops	3,142	4,794	- 43.8	- 34.5	66.2

	October 1960	Year Earlier October 1959	Per Cent Change October 1960 from Sept. 1960	Per Cent Change October 1960 from Oct. 1959	INDEX October 1960 (Average Month 1947-49 = 100)
Bank Debits, 35 banks (1,000s)	$489,126	$520,618	0.0	- 6.0	305.4[a]
Bank Loans and Discounts, 35 banks (1,000s)	44,928	45,907	- 2.0	- 2.1	266.0[a]
Demand Deposits, 35 banks (1,000s)	341,364	345,759	+ 3.1	- 1.3	183.1[a]
Time Deposits, 35 banks (1,000s)	144,337	125,495	+ 2.0	+ 15.0	407.6[a]
Wage Workers in Nonagricultural Establishments	239,400	234,800	- 0.2	+ 2.0	181.7
Number of Insured Unemployed	5,447	3,870	+ 6.3	+ 40.7	--
Rate of Unemployment (per cent of labor force)	2.87	2.07	+ 7.5	+ 38.6	184.7
*Building Permits, total 18 cities (1,000s)	$ 5,098	$ 8,245	- 35.1	- 38.2	177.3[a]
Residential	2,761	5,250	- 38.0	- 47.4	154.8[a]
Nonresidential	1,529	2,293	- 40.3	- 33.3	209.5[a]
Other	808	702	- 4.8	+ 15.2	222.8[a]
Index of All Farm Prices (1947-49 = 100)	95.2	106.2	+ 2.3	- 10.4	95.2
Index of Livestock Prices	100.3	113.4	+ 2.3	- 11.6	100.3
Index of Crop Prices	89.3	95.6	+ 1.8	- 6.6	89.3

*Indexes for these items are used to compute the Index of Business Activity.

[a]Although the number of reporting units changes, the indexes for these items are comparable with indexes for preceding months.

[b]The figures in this series are based on the average of three months' data.

na - not available

Sources:

Retail Sales Data: N. M. Bureau of Revenue
Potash Production: N. M. Bureau of Revenue
Petroleum and Natural Gas Production: N. M. Oil Conservation Commission
Life Insurance Sales (New Ordinary): Life Insurance Agency Management Association
Wage Workers and Unemployment: N. M. Employment Security Commission and U. S. Department of Labor
Electric Power Production: Federal Power Commission
Metallics Production: U. S. Bureau of Mines.
Farm Prices and Marketings: U. S. Agricultural Marketing Service
Bank Data (all series) and Building Permits: Bureau of Business Research
Business Failure Liabilities: Dun & Bradstreet, Inc.
Construction Contracts: F. W. Dodge Corporation

A Review of Paul D. Butt's

Branch Banking and Economic Growth in Arizona and New Mexico

By

A Special Committee
of the
NEW MEXICO BANKERS ASSOCIATION

The July 1960 issue of NEW MEXICO BUSINESS carried a review of a thesis which criticizes New Mexico's limited branch banking system on the grounds that it has not contributed to economic development as fully as has Arizona's unlimited branch banking. The following article was prepared by a Special Committee of the New Mexico Bankers Association in review of the thesis, which--with certain minor revisions and much updating of data--will soon be published by this Bureau under the title Branch Banking and Economic Growth in Arizona and New Mexico. Members of the committee were E. H. Tatum, chairman, executive vice president, First National Bank in Santa Fe; Robert H. Allan, Jr., executive vice president, First State Bank, Gallup; William C. Stein, vice president and comptroller, First National Bank in Albuquerque; Dale B. Gerdeman, president, Las Vegas Savings Bank; and William G. Grady, Jr., assistant cashier, Albuquerque National Bank. This article is in no way a rebuttal of or an answer to the article beginning on Page 2 of this issue.

In his thesis, soon to be published (by the UNM Bureau of Business Research) under the tentative title Branch Banking and Economic Growth in Arizona and New Mexico, Mr. Paul D. Butt has prepared an analysis based for the most part on statistical evidence. Certain basic assumptions underlie his arguments, and on these assumptions his conclusions rest. It is the intention of this review to consider these assumptions and conclusions and to comment briefly on certain aspects of the statistical approach employed. Full and free discussion of the subject of our banking systems is welcomed, and the Special Committee of the New Mexico Bankers Association appreciates the opportunity to present this review.

ASSUMPTIONS OF THE THESIS

The first and most far-reaching assumption in his paper is set forth by Mr. Butt in these words: "Since it does not appear that Arizona has any inherent advantages over New Mexico, perhaps the unlimited branch banking system of Arizona is the single most significant cause of the greater economic development in that state." This statement has not been proved in the thesis, and the author presents no analysis of the resources of the two states. Climate, terrain, natural resources, water supply, proximity to markets and major labor pools, for example, are factors which would have to be investigated with great care before any such assumption could be defended.

It is also debatable whether a banking system causes growth or simply reflects and promotes growth resulting from more fundamental causes. We suggest that the correlation between the growth of branch banking and the growth of Arizona was due not so much to its unlimited branch banking as to the inescapable fact that statewide branch banking existed in a state that has had many factors contributing to its dynamic growth since World War II. The contrast between the rate of development in Northern Arizona and that in Southern Arizona suggests that forces are at work in the southern portion of the state that are absent in the north. Both areas had the same banking system.

A second assumption on which this thesis is based is found in these words ". . .the banking system in New Mexico is, for all practical purposes, a system of unit banking." We do not accept this statement, and we regard all the arguments based upon it as open to serious question.

A unit banking system is a system in which no branches exist anywhere. New Mexico has a system of branch banking which permits any place in the state to have banking services if they are needed and are economically feasible. The people of Colorado, Wyoming, Illinois, and Missouri, for example, would certainly consider that New Mexico had a branch banking system.

This discussion should more properly be based on the relative merits of the two different branch banking systems. Exclusive definitions are misleading, and the one used by Mr. Butt has induced him to employ arguments against unit banking as having equal validity against the system existing in New Mexico. It is submitted that New Mexico, since the passage of its branch bank law in 1935, cannot be judged by arguments derived from the preceding period or by arguments about unit banking at the present time. It would be difficult, if not impossible, to find bankers in New Mexico who are opposed to branch banking as it now exists in this state. Whether unlimited branch banking is preferable is another question. The issue is between forms of branch banking and not between unit banking and branch banking.

Finally, Mr. Butt has assumed in his statistical approach to this problem, that the period from 1946 to 1957 provides a sound basis for conclusions as to the relative development of the two states and the reflection of that growth in banking statistics. It is implied also that the relative rate of change will continue because of the differences in the branch banking systems of the two states. Periods of economic development in different areas where different basic conditions exist rarely coincide in time, and lags and overlaps are more the rule than the exception. Only if all conditions and all factors were identical in Arizona and in New Mexico at the beginning of the period and continued to be identical throughout the period could the banking systems, as the only variant, be considered the determining factor.

CONCLUSIONS QUESTIONED

There are two major conclusions in this thesis that should be discussed. The first is the contention that banks in Arizona have made a greater contribution to economic progress than have banks in New Mexico because of (a) higher loan ratios, (b) lower interest rates, (c) greater return on capital, and (d) greater availability of banking services.

Higher Loan Ratios--a Greater "Loaned-Out" Position

There is more to this factor than appears from mere comparisons of the ratio of loans to deposits. A larger percentage of loans is not per se more desirable or beneficial. Conclusions would have to be based on considerable analysis of loans and deposits. Furthermore, the desirability of a given ratio depends to a large extent on what the future trend of business and deposits is expected to be. As an example of this approach, let us look at the situation on December 31, 1959. Loans in Arizona were 63 per cent of deposits, while in New Mexico they were 43 per cent. However, deposits of public funds, not properly loanable deposits, were 20 per cent of the total in New Mexico and only 12.5 per cent of the total in Arizona. The ratio of loans to deposits less public funds shows that Arizona's ratio was 70 per cent and that in New Mexico was 51 per cent. Only the banks concerned can judge whether these ratios are desirable and how much higher they can be allowed to go. However, the figure of 51 per cent of loanable deposits in New Mexico is not low and does not indicate any reluctance to make loans.

A more revealing ratio is the ratio of risk assets to deposits. Risk assets are total assets less cash and U. S. Government securities. At year end 1959 this ratio was 49 per cent for New Mexico and 72 per cent for Arizona. Another ratio commonly used to reveal the true situation of a bank is the ratio of capital to risk assets. This ratio in New Mexico at the end of 1959 was 12.9 per cent, while in Arizona it was 9.8 per cent. The national average was 14.2 per cent. Since this ratio measures invested capital in relation to risks assumed, it is worthy of consideration in any analysis of management policies in banking.

We raise the question, therefore, as to how desirable a "loaned-out" position may be at a given time. Only individual bank managements can answer this question, but it should be observed that in times of static or declining business activity a "loaned-out" position may create problems which may not be easy to solve. Declining deposits can raise the risk asset ratio just as surely as increasing loans. Therefore, a given level of the risk asset ratio is high or low in the light of future business and deposit trends. Therein lies the key to bankers' present decisions--the risk of what the future trends will be in the areas which they serve.

Lower Interest Costs

It is argued that interest costs are lower in Arizona than in New Mexico because the total interest received in that state is somewhat lower in relation to total loans than is the case in New Mexico. It is well known that the larger the bank, the greater the tendency to hold large, prime-rate loans made to nationally known borrowers. Only a detailed analysis of the loan portfolios of the different banks in the two states would throw any light on the cost of money to different classes of borrowers, especially to local businesses and to the so-called consumer who obtains installment credit and real estate loans.

Even on the overall basis presented in this study, however, it is significant that the spread between the rate of return in the two states has

narrowed from 0.8 per cent in 1946 to 0.4 per cent in 1957. During that period, according to Mr. Butt's own figures, the rate of return in Arizona increased 31.0 per cent, while the rate of return in New Mexico increased 12.5 per cent. Thus it appears that even the apparent difference in the rate of return is disappearing and has dropped to less than one half of one per cent, which is certainly not a very significant amount.

Finally, the implication that uniform interest costs are desirable is open to question. The cost of money, as with the cost of any goods or services in our economy, should be based upon supply and demand in a free market. Placing the power to determine the price of money in the hands of fewer people would probably tend to make the price more uniform; but at the same time it would deprive the banking system of one of the basic foundations of a free enterprise economy, price competition.

Greater Return on Capital

In this portion of his study, Mr. Butt uses the figures for "Net Profits Before Income Taxes" as calculated by the F.D.I.C. and works out the ratio of these figures to capital as a measure of profitability of operations. The F.D.I.C. figure "Net Profits Before Income Taxes" is calculated after all losses, recoveries, chargeoffs, extra depreciation of fixed assets, and transfers to and from reserves (including reserves for possible loan and securities losses). Most of these adjustments are a matter of management decisions, and the resultant figure is not a true measure of operating profits or efficiency. The correct figure to use from the F.D.I.C. reports is "Net Current Operating Earnings," which is the difference between operating income and operating expense. A test check of the results for the years in question indicates that New Mexico banks have done somewhat better than Arizona banks. In 1959 the ratio of Net Current Operating Earnings to Total Capital Accounts was 24.7 for New Mexico and 21.6 for Arizona.

It is also interesting to observe in this connection that Mr. Butt presents a table which relates operating expenses to operating income. In 10 of the 12 years tabulated, New Mexico banks showed a lower operating ratio than did the Arizona banks. The averages for the 12 years were these: New Mexico 63.2; Arizona 68.9. If the operating ratio can be used as a measure of efficiency, New Mexico banks have not done badly.

Availability of Banking Services

It is argued that the number of banking towns and the number of banking offices are a measure of the relative effectiveness of a branch banking system. Numbers do not prove this contention; and only an analysis of each state, area by area, would throw light on the question of whether facilities are adequate or inadequate. In both cases the location and number of offices is the result of management decisions. Economic feasibility and need are the determinants, and it would be misleading to imply that one state or the other was "ahead" or "behind" on the basis of numbers.

Here, as throughout this study, conclusions are drawn from numbers alone. A purely statistical approach to an analysis of banking systems and operations will of necessity give little or no weight to intangible factors. Judgment on the part of management cannot be ignored in any study of business activity. In the field of banking, in particular, management's medium and long-range forecasts are particularly important.

Merely as an example of the problems involved in discussing the availability of banking services, we would like to cite again the often-cited case of Bernalillo. Bernalillo is a "bankless town." Let us observe two things. Since 1935 there has been no bank in Sandoval county. Therefore, at any time in the last 25 years any bank in an adjoining county could have opened a branch anywhere in Sandoval county, including the town of Bernalillo. At the present time there are eight banks that could have applied for a branch in Bernalillo--three in Albuquerque, two in Santa Fe, one in Espanola, and two in Farmington. Finally, when a bank was recently organized in Sandoval county, it was located not in Bernalillo, but in Cuba. The point we wish to make here is that the absence of a bank in a given location in New Mexico is a matter of management decision (in this case the decisions of nine separate independent managements), and the same is true of the location of banking facilities in Arizona.

The second major conclusion reached by Mr. Butt is that the banking system of New Mexico is incapable of contributing to economic growth in the same manner as does the Arizona banking system because of (a) lack of capital, (b) limitations on the size of loans, (c) a lower degree of stability, and (d) a greater danger of failure.

Lack of Capital

The New Mexico banking system is not undercapitalized or over-loaned. All pertinent ratios indicate that the banking system has adequate capital in relation to risk assets and deposits and that it has reserves of credit available to meet increased demands.

Limitations on the Size of Loans

The contention that smaller banks must reject requests for credit in excess of 10 per cent of their capital and surplus is completely invalid and ignores the close inter-bank relationships developed under the correspondent banking system and the device of the participation loan. An individual national bank is indeed limited to 10 per cent of

its capital and surplus in loaning money to any one borrower, while our state-chartered banks are limited to 20 per cent; but a request for a larger amount can readily be met by requesting another bank to take the excess amount. The participating bank may be a New Mexico bank or an out-of-state bank. Suffice it to say that a New Mexico bank may, in effect, pool its credit with that of another New Mexico bank or with that of one of its big-city correspondents. In the latter case the New Mexico bank can actually bring capital into the state from one of the major money centers, thereby supplementing the capital available in the banks of New Mexico. Participation loans are quite common and are one of the standard resources available to banks throughout the State.

Lower Degree of Stability and Greater Danger of Failure

The New Mexico banking system has shown great stability since the mid-thirties, and no insured bank has failed in New Mexico since the F.D.I.C. began operations in 1935. The same is true of Arizona, so it would appear that the argument is at present purely theoretical. Well-capitalized banks which have sound credits in their loan portfolios, which are not overextended in their loan ratios, and which as a group do not appear to have reached too far to obtain additional income will exhibit as much stability as it is possible to obtain in this field of economic endeavor.

In this connection we should observe that in addition to having a higher ratio of capital to risk assets than do the banks of Arizona, the banks of New Mexico, both absolutely and relatively, have greater reserves for possible loan losses than do the banks of our sister state. On December 31, 1959, the banks in New Mexico held $8,114,000 in their reserves for possible loan losses; in Arizona the figure was $6,415,000. As a percentage of gross loans, these reserves amount to 2.76 per cent in New Mexico and 0.88 per cent in Arizona. We consider this factor a stabilizing one of some importance.

We should also take note of one more conclusion that falls into the category of an unproved assumption. Mr. Butt states that "without banking facilities preceding the business growth, it is likely that such growth will be considerably lessened." Before the establishment of a bank or a branch is approved by the chartering authorities, the need for the service must be demonstrated beyond reasonable doubt--no matter what the form of the banking system. Thus it is evident that economic growth in a given area must have already begun before a bank would be permitted to establish itself and begin operations. This arrangement is sound and wise, because any other sequence of events would permit banks and branches to become instruments of speculation.

SUMMARY

In conclusion, this committee feels that it should summarize the position it has undertaken to present and to state briefly the philosophy on which that position is based.

The goal of a banking system is to render the highest possible degree of service consistent with good, sound banking practice. We are convinced that there is nothing inherent in the banking system of New Mexico which prevents it from servicing any legitimate demands made upon it anywhere in the State.

We are not opposed to branch banking as a system; and we believe that our form of branch banking has proved itself capable of fostering any amount of sound economic growth, in conjunction with other factors which must also be present to promote the process. At the same time, the banking system in New Mexico has avoided undue concentration and has maintained healthy competition.

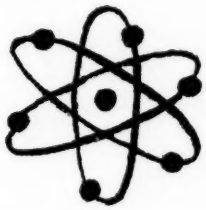
A banking system has a dual responsibility--to depositor and to borrower alike. It must provide protection to the depositor at all times by maintaining adequate liquidity, adequate capital funds, and adequate reserves for possible losses. This protection must be the maximum consistent with responsibility to the borrower. For his protection the banking system must adhere to sound, prudent banking principles so that growth will be orderly and excesses avoided.

Above all, in prosperous times a bank and the system of which it is a part must maintain reserves of unused credit which can be made available in periods of declining business activity. Only thus can the business community be protected against the dangerous situation where credit is forced to contract at the same time that business activity has ceased to expand.

Some ratios to illustrate our remarks on the adequacy of capital, earnings, the adequacy of reserves, and the risk asset position of the banks in New Mexico and Arizona may be seen in the accompanying table, which is based upon the report of the F.D.I.C. for the year ending December 31, 1959.

	NEW MEXICO	ARIZONA
Loans as a per cent of deposits	41.0	63.0
Public funds as a per cent of deposits	20.0	12.5
Loans as a per cent of deposits, less public funds	51.0	70.0
Risk assets as a per cent of deposits	49.0	72.0
Capital as a per cent of risk assets	12.9	9.8
Reserve for loan losses	$8,114,000	$6,415,000
Reserve as a per cent of gross loans	2.76	0.88
Net Current Operating Earnings as a per cent of Capital Accounts	24.7	21.6
Current Expenses as a per cent of Current Income (operating ratio)	65.9	69.1

URANIUM DELIVERIES CONTRACTED FOR BY N. M. MILLS



New Mexico's six uranium mills have AEC contracts calling for the delivery of 35.8 million pounds of uranium concentrate between last July 1 and April 1, 1962, and for post-1962 deliveries totaling around 57 million pounds. The pre-1962 deliveries, priced at between $7.46 and $8.79 a pound, depending upon the grade of ore fed to process, will be worth approximately $281.3 million. The post-1962 deliveries, at a standard rate of $8 a pound, will be worth about $456 million, bringing the grand total to around $737 million.

As of last July 1, the aggregate quantity of U_3O_8 in concentrates that the AEC had contracted for under all outstanding contracts was approximately 190.7 million pounds, of which 74.3 million pounds were to be delivered in the pre-1962 period and 116.4 million pounds in the post-1962 period. New Mexico's mills will supply only slightly less than half of the total deliveries for each period, with 21 other mills producing the remainder. Approximately 45 per cent of the value of the pre-1962 concentrates and 49 per cent of the value of the post-1962 deliveries will go to New Mexico mills.

A recent AEC news release gave the details of these enormous uranium activities. Four New Mexico processors have already had their contracts extended to December 31, 1966: Anaconda, which operates a 3,000-ton-a-day processing plant near Grants (the nation's second largest); Homestake-Sapin Partners, which operates a 1,500-ton-a-day mill at Grants, Kerr-McGee Oil Industries, which operates a 300-ton-a-day mill at Shiprock; and Phillips Petroleum Company, which operates a 1,725-ton-a-day mill at Grants.

Two other New Mexico companies are now having their contracts reviewed with the intention of bringing them into accord with the November 1958 announcement by AEC, regulating purchases of uranium concentrate (U_3O_8) through 1966. Those two companies are Homestake-New Mexico Partners, operating a 750-ton-a-day mill in the Grants area, and Kermac Nuclear Fuels Corporation (a combine of Kerr-McGee Oil Industries, Pacific Uranium Mines, Anderson Development Corporation, and Ambrosia Lake Uranium), operating a 3,300-ton-a-day mill near Grants--the nation's largest.

STATUS OF EACH MILL

On July 1, 1960, the status of each of the six mills was as follows:

Anaconda, with a contract through 1966, was to deliver 5.3 million pounds of concentrate by April 1, 1962, at $8.79 a pound, and 10.7 million pounds by the end of 1966, at $8 a pound: total value of the remaining contracted quantities, approximately $132 million.

Homestake-Sapin, with a contract through 1966, had contract orders for about 4 million pounds of concentrate by 1962 and about 10.7 million pounds for the time thereafter, both at $8 a pound: total value, approximately $118 million.

Kerr-McGee Oil, with a contract running through June 30, 1965, was to deliver around 942,200 pounds of uranium concentrate by April 1, 1962, and 872,700 pounds thereafter, both at $8

a pound: total value, approximately $14.5 million.

Phillips Petroleum Company, with a contract through 1966, had orders for nearly 5.9 million pounds of concentrate by April 1, 1962, and for close to 13.4 million pounds in post-1962 deliveries, including a quantity deferred from the pre-1962 period. The price for the first deliveries was to be $7.75 a pound; that for the second deliveries was to be $7.96 a pound instead of the standard $8, because of the stretch-out: total value, approximately $152 million.

Homestake-New Mexico, with a contract extended through March 31, 1962, had a delivery of approximately 3.5 million pounds to be made by April 1, 1962, at $8.31 a pound: total value, about $29 million.

Kermac Nuclear Fuels, with a contract through 1966, was to deliver approximately 16.3 million pounds of concentrate by April 1, 1962, at $7.46 a pound, and 21.4 million pounds after that, at $8: total value, about $292 million.

From the standpoint of the total value of remaining contract deliveries, Kermac Nuclear Fuels is far ahead of the field, with a total value of $292 million. Next comes Uranium Reduction Company, Moab, Utah, with deliveries valued at $169 million. Then three other New Mexico mills follow close upon each other's heels: Phillips Petroleum, with orders valued at $152 million; Anaconda, with ones worth $132 million; and Homestake-Sapin, with orders worth $118 million.

--Margaret Meaders

A BRIEF HISTORY OF THE NEW YORK STOCK MARKET

In an area roughly half as large as a football field, some 2,000 men work daily, carrying out the dictates of America's 12 million investors. This area is the trading floor of the New York Stock Exchange, heart of the nation's financial and industrial world. Here in the 17-story Exchange building, in the center of the financial district of our biggest city, shares of 1,116 of America's biggest and best-known corporations go on the market.

The history of the stock market is a story of sporadic growth. Entwined in its history were many of the men and the events that helped to shape the United States. Explorations, inventions, earthquakes, and wars have all left their mark on the ticker tape which measures the market's daily pulse beats.

The institution began with two dozen men, who met regularly under a buttonwood tree in Lower New York to deal in government bonds. In 1792 they agreed to trade among themselves and to charge their customers a fixed commission. Out of that association and that agreement grew the New York Stock Exchange, which now has 1,366 members and an equally large staff. In 1793 the Exchange moved indoors to the Tontine Coffee House and has remained under a roof ever since, having occupied its present site since 1865.

(The American Stock Exchange, second largest, stayed outdoors until 1921. Because of its early preference for fresh air, this institution was known until 1953 as the "Curb Exchange." During its open-air existence it provided a colorful spectacle, with trading being conducted by hand signals and orders being relayed to brokers by shouts and whistles from offices in adjoining buildings.)

An event which exerted tremendous influence upon the New York Stock Exchange took place in 1829, when the Baltimore and Ohio became the first railroad to incorporate. For the first time, industry was turning to the investor for its financing; and the rise of the large investor class was on the way. Previously limited to trading in canal and toll-road securities, the market from then on was to serve as the means whereby industry's insatiable appetite for capital would be fed.

The era introduced by the B&O move brought to the market shrewd and brilliant men like Fiske, Vanderbilt, Gould, and Drew. Not all of the newcomers were above dubious methods; for example, by manipulating stocks, Jim Fiske, Jay Gould, and Daniel Drew combined to reap a fortune, although in the process they ruined a railroad and caused the panic thereafter known as the "Black Friday of 1869."

The same era also brought new needs and new men to fill them--men like Henry Varnum Poor, who left off helping to build railroads in Maine, so that he could become a financial editor, dedicated to informing the investor. Today, an army of researchers, statisticians, and writers follows in his footsteps, working in Standard and Poor's Corporation and in other companies like it.

In the 1800s the Exchange bore little resemblance to today's crowded trading floor. In those days members sat once a day, while a list of the stocks was read. In 1871 the roll call was abandoned in favor of the continuous trading still practiced. The chairs also vanished, but the name "seat" remains to designate membership. Purchase of seats on the Exchange began in 1865.

In 1957 Louis Engle, author and broker, wrote that probably "no business in the world operates under more stringent regulation or with a stricter code of ethics--all designed for the protection of buyers and sellers." But such was not always the case. Until the early part of this century the market was considered the private area of the "big boys." Tradition held that Wall Street's doings were a private game of chance in which anything went.

By the 1920s the market had become the playground of the public. Millions of shares could be bought on margin--with only a fraction of the purchase price paid in cash. Bellboys vied with tycoons in building financial empires, even though such empires were created mainly out of paper. Warnings of experts went unheeded; so in October 1929 the big bubble burst. It was truly an explosion heard around the world.

As a result of that well-known financial catastrophe, the federal and state governments set up a host of corrective measures and regulatory laws. Today, market activities are closely followed by the Security and Exchange Commission, and margin buying is regulated by the Federal Reserve Board.

The Exchange, itself, cleaned house during the 1930s. Purchase of a seat now entails careful screening by the Exchange's board of governors. These seats are extremely valuable, because only members are allowed on the trading floors to represent investors. Currently, a seat sells for something like $160,000, compared with the original price of $6,750. If today's price seems high, consider the 1929 membership fee of $625,000!

All companies wishing to list securities on the Big Board are thoroughly scrutinized before permission is granted. Prerequisites are minimum net earnings of $1 million, a minimum of 400,000 shares of common stock outstanding, and a minimum of 1,500 stockholders. American Telephone and Telegraph holds the present top spot, with a total of 1.4 million shareholders.

This last figure emphasizes the change that has occurred in the market's general character. Today, it is the investor who dominates the market, with the speculator--usually, an informed professional--relegated to a minor but still vital role. The Solid-Gold Cadillac rolls merrily along, filled with "little people" who have made the "big boys" move over. One out of eight adult Americans owns stock listed on the New York Stock Exchange. A far cry this, from tycoons of the past, for today's average investor has an income of $7,000 a year.

Despite changes, the market still clings to many old customs and much of its traditional language. "Bulls" expect stocks to go up; "bears" are sure they will go down. These terms originated in the long-ago time when manipulators could--and did--force the market in the direction they wished it to go and when they treated their victims as they pleased, tossing them up or crushing them down.

No matter what the changes over the years, today's would-be millionaires, as well as the ordinary investors, continue to approach the market with the same, old question: "Is it going up or is it going down?" No answer has ever topped J. P. Morgan's: "It will fluctuate."

Announcement!

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BRANCH BANKING AND ECONOMIC GROWTH IN ARIZONA AND NEW MEXICO

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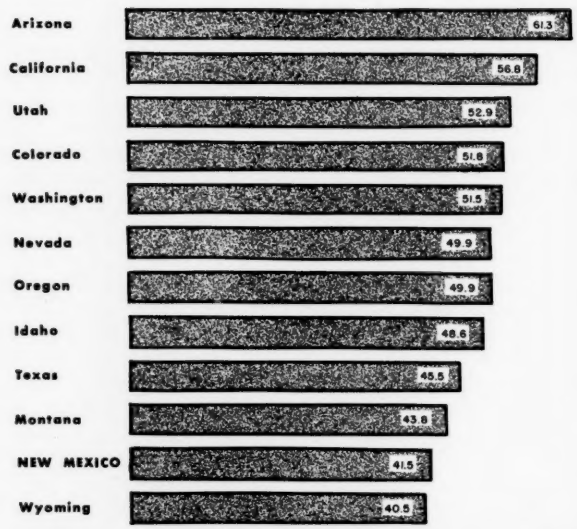
CHART-OF-THE-MONTH

Ratios of Loans and Discounts to Deposits in the Western States

1959



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